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SUBJECT: PAY YOUR TAXES, WIN THE LOTTERY!

#### SUMMARY

1. (SBU) In an effort to encourage greater tax compliance by both retail sales outlets and consumers, the State Revenue Committee this month introduced a lottery that pays prizes to persons holding a winning cash register receipt. This follows regulations issued last fall requiring all retail sellers to install cash registers. The GOAM has adopted this strategy to reduce the size of Armenia's "gray" economy and increase its low rate of tax collections. The lottery is supported by an extensive public awareness campaign. The Head of the State Tax Service reports that the lottery and increased enforcement have led to a 20-fold increase in the use of cash registers by retailers, though the impact of the lottery itself is not clear. END SUMMARY

#### MANDATING CASH REGISTERS TO STEM GREY ECONOMY

2. (U) In October 2008, the GOAM introduced a requirement that all retail markets install cash registers and provide receipts to customers, and began to enforce this requirement on January 1. The GOAM estimates that 30-40 percent of economic activity in Armenia occurs, unrecorded and untaxed, in a gray economy. This is one contributory factor to Armenia's 2008 tax/GDP ratio of 17 percent, which while an improvement over the 16.1 percent ratio of 2007, remains the lowest among CIS countries. The cash register requirement, according to Aharon Chilingarian, Deputy Chairman of the State Revenue Committee, applies to all retail vendors, except in the most remote regions of the country.

3. (SBU) Chilingarian told Econoff that the GOAM found the idea of a lottery by studying the experiences of several other countries --including Singapore--that had sought to improve retail tax compliance. He reports that through a combination of increased enforcement and the lottery, the number of cash registers deployed in markets has increased from 400 to over 8,000 (Note: He did not provide an estimate of how much each measure has contributed to this increase. End Note)

#### PROMOTING A CULTURE CHANGE?

4. (U) The GOAM hopes that the lottery will encourage customers to demand receipts from shop owners and market sellers, and estimates that the lottery--which it plans to run for three years--will increase tax revenues by USD 17 million per year, equal to just over one-half percent of the federal budget. The winning number must match an eight-digit number printed on the back of each cash register receipt. The first drawing was held on Friday, February 6, with two winners each receiving approximately USD 1,800. A single prize could be as high as USD 16,400. In all, AMD 115 million (about USD 375 thousand) will be available as prizes each month. The GOAM is supporting the lottery with an extensive public awareness campaign, including television commercials featuring Armenia's best-known comedian. Early anecdotal evidence suggests that the strategy is working; customers--often spurred by their children, as one of our own

FSNs related from experience--are increasingly demanding receipts for their transactions, no matter the low odds of winning.

COMMENT

15. (SBU) While we fully support the GOAM's efforts to increase tax compliance at all levels of the Armenian economy, the lottery provides little direct incentive for retailers to install cash registers, though if consumers start to favor receipt-providing businesses that would bring market pressure. Consumers have already begun to clamor for the government to award more prizes, even if at lower prize values. We suspect enforcement penalties have likely been the greater motivator to date. It remains to be seen how strong a factor this will become in changing consumer and retailers' behavior. Nonetheless, it is possible that the lottery, combined with a public awareness campaign, could bring about a cultural change in a country accustomed to gray markets and tax avoidance. Aside from enlisting consumers' help in boosting shop owners' compliance, the tactic may also help build a positive political constituency among consumers for the new cash register mandate, which is deeply unpopular with small business owners and had provoked angry muttering in parliament questioning the wisdom of imposing higher costs on the business community at a time of rising economic distress. At any rate, the GOAM earns points for creativity.

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